GREAT LAKES PILOTAGE AUTHORITY

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SUMMARY

OF THE CORPORATE PLAN

2007 to 2011

Includes:

Operating Budget – 2007

Capital Budget - 2007

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MANDATE

The objectives of the Authority are to establish, operate, maintain and administer a safe and efficient pilotage service within designated Canadian waters. The *Pilotage Act* provides that the pilotage tariffs shall be fair, reasonable and sufficient and, together with any revenue from other sources, shall permit the Authority to operate on a self-sustaining financial basis.

BACKGROUND

The Great Lakes Pilotage Authority, Ltd. was established in February 1972 pursuant to the *Pilotage Act*, incorporated as a limited company in May 1972, and was continued under the *Canada Business Corporations Act*. Until October 1st, 1998, it operated under the name of Great Lakes Pilotage Authority, Ltd. Pursuant to the *Canada Marine Act*, which received Royal Assent on June 11 1998, the name of the Authority was changed to Great Lakes Pilotage Authority and the Authority is deemed to have been established under subsection 3(1) of the *Pilotage Act*. The Authority is a Crown corporation listed in Schedule III, Part I of the *Financial Administration Act*. On October 1st, 1998, the Authority ceased to be a subsidiary of the St. Lawrence Seaway Authority and has surrendered its charter under the *Canada Business Corporations Act*.

POWERS

To carry out its responsibilities the Authority has made regulations, approved by Order-in-Council, pursuant to the *Pilotage Act* for:

1. The establishment of compulsory pilotage areas.
2. The prescription of the ships or classes of ships subject to compulsory pilotage.
3. The prescription of the classes of pilot licenses and classes of pilotage certificates that may be issued.
4. The prescription of the tariffs of pilotage charges to be paid to the Authority for pilotage services

In addition, the Authority is empowered by the *Pilotage Act* to:

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1. Employ such officers and employees, including licensed pilots, as required.
2. Contract with a body corporate for the services of licensed pilots.
3. Make by-laws respecting the management of its internal affairs.
4. Purchase, lease or otherwise acquire land, buildings, pilot boats and such other equipment and assets as may be required and to dispose of any such assets acquired.
5. Borrow money for the purpose of defraying the expenses of the Authority.
6. With the approval of the Minister of Finance, invest any money not immediately required for the purposes of the Authority in bonds or other obligations of or guaranteed by Her Majesty in right of Canada and Provincial Treasury Bonds guaranteed by the Provincial Governments.

CORPORATE OBJECTIVES

The Authority's corporate objectives are summarized as follows:

- To provide economic, safe, reliable and comprehensive marine pilotage and related services in its region of responsibility.

- To promote the effective utilization of the Authority's facilities, equipment and expertise through the productive application of these resources in such activities and geographic areas as may be appropriate in the interest of safe navigation.

- To provide the above services within a commercially-oriented framework directed toward achieving and maintaining financial self-sufficiency at the least cost to the user.

- To be responsive to the Government's environmental, social and economic policies.

DESCRIPTION OF THE OPERATIONS

The Authority operates in the interest of safety, a marine pilotage service in all Canadian waters in the Provinces of Ontario, Manitoba and in Quebec south of the northern entrance to the St. Lambert Lock.

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Services are provided through the performance of pilotage assignments to those vessels entering the region which are subject to compulsory pilotage by pilots employed by the Authority, using pilot boats contracted by the Authority and dispatch services, both controlled through Pilotage Headquarters at Cornwall.

The Authority must co-ordinate its efforts and operations with a number of other organizations such as The St. Lawrence Seaway Management Corporation and the United States Seaway Development Corporation, who operate the lock facilities, and maintain traffic control systems within the Region; the Canadian Coast Guard, who provide aids to navigation and the United States Coast Guard, who are responsible for the United States pilotage matters in international waters.

The Great Lakes Pilotage region is divided as follows:

- Cornwall District
- International District No. 1
- Lake Ontario
- International District No. 2 (including the Welland Canal)
- International District No. 3 (including Lakes Huron, Michigan and Superior)
- The Port of Churchill, Manitoba

CORPORATE GOVERNANCE

Corporate Governance is the process of establishing and monitoring, the policies and procedures which will ensure the stewardship of the business and affairs of the Authority, including financial viability.

The Authority's Board of Directors is comprised of a Chairman, two Pilot representatives, two Shipping Industry representatives and two representatives of the public interest. This structure provides effective channels of communication and encourages better understanding of the requirements of the major users.

The Canada Marine Review Panel has recommended that the present Board structure be included in the Pilotage Act.

The Chairman and two Board members are also designated as members of the Audit Committee. At regular meetings, the Audit Committee reviews the financial performance

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of the Authority. After the Audit Committee's review, the financial statements are presented to the monthly meeting of the Board of Directors for formal acceptance.

During 2006, the Board of Directors engaged the services of a professional accounting firm to serve as internal auditors of the Authority.

The Authority complies with the Treasury Board guidelines on corporate governance practices.

EXECUTIVE SUMMARY

The Authority's corporate objectives are summarized as follows:

- To provide economic, safe, reliable and comprehensive marine pilotage and related services in its region of responsibility.

- To promote the effective utilization of the Authority's facilities, equipment and expertise through the productive application of these resources in such activities and geographic areas as may be appropriate in the interest of safe navigation.

- To provide the above services within a commercially-oriented framework directed toward achieving and maintaining financial self-sufficiency at the least cost to the user.

- To be responsive to the Government's environmental, social and economic policies.

The Authority has forecasted its first operating surplus since the late 1990s when it was able to accumulate over $8,000,000 in cash and freeze tariffs for eight years. With the surplus now eliminated following seven straight years (1999 to 2005) of financial losses, the Authority appears to be in a position of positive results. Tariffs in the last five years have been increased at rates that have matched inflation for the last 13 years.

The last two major tariff initiatives addressed the Authority's financial losses in districts where the revenues were calculated using the American currency and where the pattern of vessels transiting the Great Lakes has changed from previous years. The U.S. dollar depreciated 43% in four years therefore reducing the Authority's revenues in International districts by the same percentages causing revenues to be reduced by up to $2 million a year in

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2003 and 2004. The Authority reverted back to the Canadian currency for its tariff in International waters in 2005 to stop the reduction of revenues and eliminate the uncertainties of currency fluctuations.

In 2006, the Authority addressed its last major issue dealing with reductions in revenues in the area of vessel sizes. The pattern of ship sizes began a change in 2000 when more of the ships trading in the Great Lakes were smaller therefore yielding less revenues per ship. The impact of this shift in the pattern of ship sizes resulted in revenues decreasing by approximately $800,000 a year. The effect of this reduction in revenue resulted in losses incurred for every small ship where pilotage services were performed. In 2006 the Authority increased tariffs for these small ships to allow revenues to increase and permit the Authority to breakeven on the transit.

Tariffs for 2007 and the planning period are forecasted to match the projected increase in the cost of living.

Traffic levels in 2004, 2005 and 2006 are now at a level which will permit the Authority to operate in an environment where work force compression and major cost cutting initiatives will not be required.

In 1999, the Minister of Transport accepted the recommendation of the Canadian Transportation Agency that suggested that the *Great Lakes Pilotage Regulations* be amended to enhance the requirements for Canadian vessel exemptions for compulsory pilotage in the Great Lakes region. The Minister of Transport instructed the Authority to perform a risk analysis of the situation and prepare amendments that would be supported by the findings of the risk study.

The risk analysis is now complete and the proposed amendments to the regulations are now in the process of being published in Part I of the Canada Gazette. The Authority is anticipating the publication in 2007 which will not require a major undertaking financially and operationally to implement the amendments for the 2008 navigation season. The amendments will allow most of the Canadian officers to pilot their own vessels in the Great Lakes region once a pilotage certificate is issued to them. Pilotage certificates will be issued only when these marine officers have demonstrated that they have the qualifications and experience to navigate their vessels safely in the region. The present exemption system does not require these officers to demonstrate their knowledge or skill in order to navigate the waters of the Great Lakes. The primary objective of the Authority in 2007 will be to effectively and efficiently implement the proposed pilotage certificate system.

Current Treasury Board requirements regarding Internal Audit will cause the Authority to examine all its major operational functions and review the operating risks associated to them. This examination was started and was continued into the planning period

with a first

report presented in the Spring 2005. The Authority reviewed the findings of this Internal Audit report and established action plans to address all recommendations. Implementation of the action plan began in late 2005 and was completed in 2006 with the first report issued to the Board of the Authority. This report reviewed the Human Resources Managements and concluded that the Authority had the proper controls in place to assure efficient and effective management.

The Authority will undertake a second area of review of its internal audit function in the area of pilot training, development and assessment. This audit will be completed in early 2007. The cost of the internal audit function is $50,000 per year and deemed to be a valued addition.

The Authority has completed its consolidation of all operations by disposing its assets in Port Weller, Ontario and moving all dispatching and administrative functions into its Cornwall, Ontario head office. The Authority realized a surplus of $150,000 in the sale of its building/land in Port Weller and has used this surplus to reduce its accumulated deficit.

REVENUE AND TRAFFIC

The Authority operates in an environment where a number of factors can affect its operation significantly. Some of these factors are: grain exports, steel imports/exports, Canadian/American economy, the China factor and the value of the Canadian dollar. Anyone of these factors could impact the Authority's vessel traffic in the Great Lakes which in turn could impact Pilotage revenue and profitability of the Authority. The factors on their own or in concert with each other cannot be forecasted with any accuracy and leaves the Authority waiting to see the effects once changes in the environmental factors is experienced. The industry and users have indicated that they are willing to fund pilotage during the periods when demand is low as they cannot afford any delays when demand increases. We have seen that in times when demand increases slightly (1%) delays can increase significantly which becomes very costly to the users. Also, the Authority has collective agreements, service contracts and leases that it must honor during the planning period as these are explained in this section.

The Authority forecast inflation to be at 2.5% per year for the planning period and interest rates to be at the same level as 2006. The Authority forecasts traffic to be 6,440 assignments for 2007.

COLLECTIVE LABOUR AGREEMENTS

The Authority has five Collective Agreements, four with Pilot Corporations and one with Public Service Alliance of Canada (P.S.A.C.) which represents the clerical staff and

despatchers employed by the Authority. All (4) pilot collective agreements have been ratified and will expire March 31, 2007. The pilots and the Authority have also entered into agreement to give up their right to strike and withhold services for a period of five years (March 31, 2006). The Authority is presently negotiating an extension to this agreement. The collective agreement with P.S.A.C. employees has been ratified and expired June 30, 2006.

PILOT BOAT CONTRACTS

The Authority contracts for pilot boat services at both Port Weller and Port Colborne. These contracts are in place up to the 2010 season.

Both of these pilot boats (including crew) are at a fixed rate per month. The cost of obtaining this service is approximately $470,000 per annum for both contracts.

LAND TRANSPORTATION CONTRACTS

The contract for Land Transportation services to transfer pilots between St. Lambert and Beauharnois, Quebec, and Cornwall, Ontario will expire on December 31, 2007. The contract for Land Transportation services to transfer pilots between Cornwall, Ontario and Snell Lock (U.S.), St. Lambert, Quebec and Cape Vincent, New York will expire on December 31, 2006. The contract for the Land Transportation services to transport pilots to points in the area of the Welland Canal will expire on December 31, 2006.

The cost of obtaining these services will be directly related to the volume of assignments. The cost for 2007 is estimated to be $350,000.

It is difficult to forecast these cost increases over the planning period because of the upward pressure on oil and gas prices and insurance costs. The exact effect of these increases cannot be forecasted at this time.

LEASES

The Authority relocated its head office to a new location in 1994. The head office facility is under a five (5) year lease, which expires in 2009. This lease has an annual

cost of approximately $54,000 for 2006 and increases as per the Canadian Consumer Price Index for 2007 to 2009.

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COMPUTER SYSTEM SUPPORT

The Authority has a computer software and Web-site support agreement with Klein Systems of Vancouver, B.C. for a fixed annual price of $21,000 per year. This agreement is a yearly one and can be terminated without cost at any time.

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SUMMARY OF 2007-2011 CORPORATE PLAN

SCHEDULE OF HUMAN RESOURCES

2001-2011

GREAT LAKES PILOTAGE AUTHORITY

CORPORATE PLAN

STATEMENT OF HUMAN RESOURCES

AT YEAR END

	ACTUAL 2001	ACTUAL 2002	ACTUAL 2003	ACTUAL 2004	ACTUAL 2005	2006	2007	FORECAST 2008	2009	2010	2011
ADMINISTRATION											
CEO	1	1	1	1	1	1	1	1	1	1	1
ADMINISTRATIVE OFFICERS	5	5	5	4	4	6	6	6	6	6	6
ADMINISTRATIVE SUPPORT	4.5	4.5	4.5	3.5	3.5	3	3	3	3	3	3
TOTAL	10.5	10.5	10.5	8.5	8.5	10	10	10	10	10	10
OPERATION											
FULL TIME PILOTS	64	64	60	60	59	59	60	60	60	60	60
CONTRACT PILOTS (5)	9	9	5	4	1	3	3	3	3	3	3
DISPATCHERS	9	9	9	9	9	9	9	9	9	9	9
	77.5	77.5	71.5	71	68.5	69.5	70.5	70.5	70.5	70.5	70.5
TOTAL MANPOWER	88.0	88.0	82.0	79.5	77.0	79.5	80.5	80.5	80.5	80.5	80.5

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STATEMENT OF OPERATIONS

2006-2011

GREAT LAKES PILOTAGE AUTHORITY

OPERATING BUDGET

(000'S)

	ACTUAL 2005	FORECAST 2006	BUDGET 2007	FORECAST 2008	FORECAST 2009	FORECAST 2010	FORECAST 2011
REVENUES							
PILOTAGE	$ 15,249	$ 17,919	$ 17,215	$ 17,645	$ 18,086	$ 18,539	$ 19,002
2% TEMPORARY SURCHARGE	-	358	344	353	362	371	380
INVESTMENTS	13	25	30	35	40	45	47
OTHER	83	98	85	86	86	86	85
TOTAL	$ 15,345	$ 19,400	$ 17,674	$ 18,119	$ 18,573	$ 19,039	$ 19,514
EXPENSES							
PILOT WAGES	$ 7,065	$ 7,412	$ 7,628	$ 7,819	$ 8,014	$ 8,214	$ 8,419
PILOT OVERTIME	1,781	1,990	1,500	1,530	1,561	1,592	1,624
PILOT PRODUCTIVITY	1,301	1,900	1,150	1,179	1,208	1,238	1,269
PILOT FRINGE BENEFITS	1,698	1,755	1,831	1,877	1,923	1,971	2,021
OPERATION SALARIES	674	700	725	743	762	781	801
OPERATION FRINGE BENEFITS	127	161	167	171	175	180	184
TRAVEL EXPENSES	1,009	1,130	1,060	1,090	1,115	1,140	1,170
PILOT BOAT	537	588	617	648	680	714	750
LAND TRANSPORTATION	397	493	430	441	452	463	475
LAPTOPS & ELECTRONIC CHARTS	-	180	180	180	100	100	100
TERMINATION BENEFITS	231	300	308	316	324	332	340
COMMUNICATION	51	50	44	45	45	45	45
DISPATCH SERVICES	54	60	60	60	60	60	60
UTILITIES, SUPPLIES & RENT	132	125	126	126	130	130	135
TRAINING	68	62	100	100	100	100	100
TOTAL	$ 15,025	$ 16,806	$ 15,925	$ 16,324	$ 16,649	$ 17,060	$ 17,493
OPERATING MARGIN	$ 320	$ 1,594	$ 1,749	$ 1,794	$ 1,924	$ 1,979	$ 2,021
ADMINISTRATION EXPENSES							
SALARIES	$ 482	$ 520	$ 553	$ 567	$ 581	$ 596	$ 611
FRINGE BENEFITS	119	130	138	142	145	149	153
UTILITIES AND RENT	59	56	60	60	60	65	65
RETIRED EMPLOYEES BENEFITS	13	12	12	12	10	10	10
DIRECTOR FEES	50	62	62	62	62	62	62
DIRECTOR TRAVEL	73	75	75	75	75	75	75
ADMINISTRATION TRAVEL	77	85	85	85	85	85	85
COMMUNICATION	14	14	15	15	15	15	15
TERMINATION BENEFITS	50	50	50	52	54	56	58
PROFESSIONAL FEES	115	100	100	100	100	100	100
AMORTIZATION	70	72	60	40	40	40	40
INTEREST EXPENSE	31	23	20	15	10	5	3
TOTAL	$ 1,153	$ 1,199	$ 1,230	$ 1,225	$ 1,237	$ 1,258	$ 1,277
SURPLUS (LOSS) FROM OPERATIONS	$ (833)	$ 395	$ 519	$ 569	$ 687	$ 721	$ 744
GAIN FROM EXTRAORDINARY ITEM	-	150	-	-	-	-	-
SURPLUS (LOSS) FOR THE YEAR	$ (833)	$ 545	$ 519	$ 569	$ 687	$ 721	$ 744

GREAT LAKES PILOTAGE AUTHORITY
SUMMARY OF 2007-2011 CORPORATE PLAN

BALANCE SHEET

2005-2011

GREAT LAKES PILOTAGE AUTHORITY

CORPORATE PLAN

BALANCE SHEET

(000'S)

	ACTUAL 2005	FORECAST 2006	BUDGET 2007	FORECAST 2008	FORECAST 2009	FORECAST 2010	FORECAST 2011
ASSETS							
CURRENT ASSETS							
CASH	$ 421	$ 277	$ 184	$ 196	$ 145	$ 140	$ 167
SHORT TERM INVESTMENTS	800	3,141	2,420	2,682	2,827	2,856	2,868
ACCOUNTS RECEIVABLE	3,097	2,100	2,160	2,200	2,250	2,300	2,350
	4,313	5,518	4,764	5,078	5,223	5,296	5,385
LONG TERM INVESTMENTS							
LONG TERM INVESTMENTS - REGULAR		350	702	1,055	1,717	2,488	3,288
		350	702	1,055	1,717	2,488	3,288
FIXED ASSETS	1,055	1,135	1,205	1,280	1,335	1,390	1,445
LESS: ACCUMULATED DEPRECIATION	(951)	(1,023)	(1,083)	(1,123)	(1,163)	(1,203)	(1,243)
	104	112	122	157	172	187	202
TOTAL ASSETS	$ 4,417	$ 5,980	$ 5,588	$ 6,290	$ 7,112	$ 7,971	$ 8,855
LIABILITIES							
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	$ 5,153	$ 6,100	$ 5,100	$ 5,150	$ 5,200	$ 5,250	$ 5,300
ACCRUED TERMINATION BENEFITS	3,173	3,252	3,333	3,416	3,501	3,589	3,679
TOTAL LIABILITIES	8,326	9,352	8,433	8,566	8,701	8,839	8,979
SHAREHOLDER EQUITY							
COMMON STOCK	-	-	-	-	-	-	-
CONTRIBUTED CAPITAL	82	82	82	82	82	82	82
ACCUMULATED DEFICIT	(3,991)	(3,446)	(2,927)	(2,358)	(1,671)	(950)	(206)
	(3,909)	(3,364)	(2,845)	(2,276)	(1,589)	(868)	(124)
TOTAL LIABILITIES AND EQUITY	$ 4,417	$ 5,980	$ 5,588	$ 6,290	$ 7,112	$ 7,971	$ 8,855

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SUMMARY OF 2007-2011 CORPORATE PLAN

STATEMENT OF CHANGES IN FINANCIAL POSITION

2005-2011

CORPORATE PLAN

CHANGES IN FINANCIAL POSITION

(000'S)

	ACTUAL 2005	FORECAST 2006	BUDGET 2007	FORECAST 2008	FORECAST 2009	FORECAST 2010	FORECAST 2011
CASH PROVIDED BY (USED IN):							
OPERATING ACTIVITIES							
NET SURPLUS (LOSS) FOR THE YEAR	$ (833)	$ 545	$ 519	$ 569	$ 687	$ 721	$ 744
ITEMS NOR REQUIRING CASH							
EMPLOYEE FUTURE BENEFITS	122	180	158	168	178	188	198
AMORTIZATION	70	72	60	40	40	40	40
NET CHANGE IN WORKING CAPITAL COMPONENTS OTHER THAN CASH	11	1,838	(1,137)	(75)	(93)	(100)	(106)
	$ (630)	$ 2,635	$ (400)	$ 702	$ 812	$ 849	$ 874
INVESTING ACTIVITIES							
PURCHASE OF INVESTMENTS	(800)	(3,499)	(3,122)	(3,737)	(4,544)	(5,344)	(6,136)
DISPOSAL OF INVESTMENTS	1,250	800	3,499	3,122	3,737	4,544	5,344
ACQUISITION OF CAPITAL ASSETS	(17)	(80)	(70)	(75)	(55)	(55)	(55)
	$ 433	$ (2,779)	$ 307	$ (690)	$ (862)	$ (855)	$ (847)
INCREASE (DECREASE) IN CASH	(197)	(144)	(93)	12	(50)	(6)	27
CASH, BEGINNING OF YEAR	618	421	277	184	196	146	140
CASH, END OF YEAR	$ 421	$ 277	$ 184	$ 196	$ 146	$ 140	$ 167

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CAPITAL BUDGET

2005-2011

GREAT LAKES PILOTAGE AUTHORITY

CORPORATE PLAN

CAPITAL BUDGET

($000'S)

	ACTUAL 2005	FORECAST 2006	BUDGET 2007	FORECAST 2008	FORECAST 2009	FORECAST 2010	FORECAST 2011
BUILDINGS	$ -	$ -	$ 20	$ 20	$ -	$ -	$ -
COMPUTER HARDWARE & SOFTWARE	12	55	50	50	50	50	50
COMMUNICATION EQUIPMENT	-	-	-	-	-	-	-
OFFICE EQUIPMENT & FIXTURES	5	25	-	5	5	5	5
	$ 17	$ 80	$ 70	$ 75	$ 55	$ 55	$ 55

The Authority plans to spend $55,000 in 2006 to upgrade its dispatch, billing and accounts receivable system and related hardware. Also, the Authority plans to spend $25,000 in 2006 to replace office furniture at its Cornwall Head office. In 2007 and 2008, the Authority plans to spend $20,000 each year to upgrade its pilot waiting station in St. Lambert.